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|  | PENNSYLVANIA TURNPIKE COMMISSION POLICY AND PROCEDURE | Number: 7.5 |
| | | Approved Date: 10/18/2011 |
| | | Effective Date: 11/02/2011 |
| Policy Subject: 7.5 -Internal Audit Services | <i>This is a statement of official Pennsylvania Turnpike Commission Policy</i> | Revised Date: 10/03/2011 |
| | Responsible Department: Operations Review and Toll Revenue Audit Department | |

A. Purpose:

To establish a uniform policy and define responsibilities for the performance internal audit services within the Pennsylvania Turnpike Commission.

B. Scope:

This policy applies to all Internal Audit Services and all employees of the Pennsylvania Turnpike Commission.

C. General Policy:

Internal Audit Services will be performed in accordance with the Internal Audit Charter (Attachment I). A committee of executive management, known as the Audit Committee, will operate in accordance with their Charter (Attachment II), as approved by the Pennsylvania Turnpike Commission (Commission). Audits of Commission departments, programs, activities and functions are to be performed by qualified auditors in accordance with the Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

D. Definitions:

1. Internal Audit Services – A range of independent, objective, assurance, and consulting services designed to add value and improve the Commission’s operations. This includes evaluation and/or examination activities conducted to determine compliance with approved policies, business processes and procedures that are in place to effectively and efficiently control the organization’s activities, enable successful achievement of established goals and objectives, and protect the Commission’s assets. These activities include financial audits, performance audits and consulting services as well as advising management on correcting process/procedural weaknesses, improving controls, identifying significant exposures, and assessing risk with regard to the Commission’s operations. Should any audit reveal the

existence of potential fraud, abuse, or misuse of Pennsylvania Turnpike Commission assets or funds, such information shall be immediately reported to the Inspector General, who will be responsible for conducting an investigation of the alleged wrongdoing

2. Evaluation: A review and assessment of information regarding the Commission's operations and controls in order to determine the value or significance of the information.
3. Consulting: Advisory services intended to add value and improve the Commission's governance, risk, management, and control processes without the internal auditor assuming management responsibility.
4. Internal Audit Function – The performance of Internal Audit Services by either the Operations Review or Toll Revenue Audit Departments. Projects or activities other than Internal Auditing Services may be performed by these departments at the direction of the Chief Executive and/or Chief Operating Officer(s)
5. Internal Audit Charter – This charter describes the purpose, authority, and principal responsibilities of the Pennsylvania Turnpike Commission's Internal Audit Departments (Attachment I).
6. Audit Committee Charter – This charter describes the membership, responsibilities, powers and duties of the Audit Committee (Attachment II).
7. Audit Executive - The Director of Operations Review or Toll Revenue Audit.

E. Procedures:

1. Requests for Internal Audit Services – Requests for internal audit services can be made at any time through the requesting organization's Director in written form to either the Director of Operations Review or Toll Revenue Audit. Audit service requests regarding the process of toll collection or any components associated with the collection or processing of toll revenue, customer service or the Commissions fare collection maintenance contractor or ETC contractor should be submitted to the Director of Toll Revenue Audit. Other requests for audit services should be submitted to the Director of Operations Review. Requests for audit services should include a description of the problem or area of concern, type of audit service requested, proper justification of why the audit service is necessary, the risk of not performing the audit service, and the requested audit services completion date. Requests will be evaluated, prioritized and approved based on severity of the control exposures, levels of risk, degree of non-compliance, and overall benefit to the organization. The appropriate Audit Executive has the authority to recommend that an audit service commence immediately. If it is determined that addressing an audit service request can be deferred without significant business risk, the Audit Executive has the authority to defer the request for review by the Audit Committee at it's next scheduled meeting.
2. Performance of Audit Services – All audit services will be performed in accordance with the Standards for the Professional Practice of Internal Auditing which encompass:
 - a. The independence of the internal audit function from the activities audited and the objectivity of internal auditors.

- b. The proficiency of internal auditors and the professional care they should exercise.
 - c. The scopes of internal auditing activities.
 - d. The performance of internal auditing assignments.
3. Availability of Records – All records of the Commission relevant to the audit service must be made available to the auditor. These records include, but are not limited to, contracts, invoices, correspondence, contract deliverables, payroll, project records, electronic systems and data.
4. Code of Ethics - The Internal Audit Departments will follow the Institute of Internal Auditors' Code of Ethics. The standards of conduct set forth in the Code of Ethics provide the principles in the practice of Internal Audit.
5. Communications – Prior to the start of each audit service, a written scope of services will be prepared. The appropriate Audit Executive and management requesting the service will agree upon the written scope of service. The results of all audit services will be communicated to the appropriate level of management both during and at the end of the audit. If the respective Internal Audit Department becomes aware of an issue, outside the course of a planned audit service that is an audit concern; the issue will be brought to the attention of management and the Audit Committee.
6. Reporting – The results of the audit will be documented in a written report or memorandum and submitted to the Audit Committee.
7. Audit Resolution – An opportunity will be given to the auditee to resolve any outstanding issues before they become a finding and issued as part of the final audit report.
8. Audit Follow-Up – The appropriate Audit Executive will follow up on the status of implementation of corrective action at least annually from the report issue-date, until all recommendations are implemented.

This Policy Letter supersedes all previous Policy Letters on this subject.

PENNSYLVANIA TURNPIKE COMMISSION

INTERNAL AUDIT CHARTER

This Charter describes the purpose, authority, and principal responsibilities of the Pennsylvania Turnpike Commission Internal Audit Departments (Operations Review and Toll Revenue Audit).

PURPOSE

Internal auditing is an independent appraisal activity established by the Board of Commissioners which functions by measuring and evaluating the effectiveness of financial and managerial controls. A primary objective of internal auditing is to assist Commission management in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning various activities audited or reviewed.

AUTHORITY

The Internal Audit Departments are authorized by the Board of Commissioners to conduct a comprehensive program of internal auditing. To accomplish its objectives, internal auditors, with stringent regard for safekeeping and confidentiality, shall have access to all Commission activities, records, property, and employees as may be necessary to carry out their assigned responsibilities in accordance with the annual work plan. Internal auditing is a staff function and internal auditors have no authority over, or responsibility for, the activities they audit.

REPORTING

The Internal Audit Departments report to the Chief Operating Officer and the Audit Committee for all auditing activities.

RESPONSIBILITIES

Internal auditing responsibilities include, but are not limited to:

- Examining and evaluating the adequacy and effectiveness of the organization's systems of internal control, including those pertaining to the deterrence, detection, and identification of fraudulent or illegal acts, which shall immediately be reported to the Inspector General of the Commission or to the Chief Executive Officer or Chief Operating Officer, if applicable, for investigation.
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations, which could have a significant impact on operations and reports, and determining whether the organization is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Coordinating internal auditing activities with the work of the independent external auditors and assisting the external auditors as required.

In meeting its responsibilities, internal auditors shall comply with the Code of Ethics and the Standards for the Professional Practice of Internal Auditing promulgated by The Institute of Internal Auditors, Inc., as well as other professional auditing standards, which may be applicable to the performance of their work assignments.

Concurrence:

Roger E. Nutt
Chief Executive Officer

Craig R. Shuey
Chief Operating Officer

Audit Committee Chairman

Pennsylvania Turnpike Commission AUDIT COMMITTEE CHARTER

I. Purpose

The primary purpose of the Audit Committee (the “Committee”) of the Pennsylvania Turnpike Commission (the “Commission”) is to assist the Commissioners in fulfilling their oversight responsibilities regarding (1) the audit and integrity of the Commission’s financial statements, (2) the qualifications, independence and performance of the Commission’s external auditor, (3) the adequacy and effectiveness of the Commission’s accounting, auditing and financial reporting processes, (4) the Commission’s compliance with pertinent laws, rules and regulations, and (5) the Commission’s assessment of risks that might materially affect its financial condition.

Although the Committee has the authority and responsibilities set forth in this Charter, the primary role of the Committee is oversight. It is not the duty of the Committee to conduct audits, to determine that the Authority’s financial statements are complete and accurate and in accordance with general accepted accounting standards, or to otherwise assure compliance with pertinent laws, rules and regulations. These are the responsibilities of (1) management, which for purposes of this Charter includes the Chief Executive Officer and the Chief Operating Officer, Commission counsel, the directors of the Toll Revenue Audit and Operations Review Departments; and (2) the Commission’s external auditor.

II. Authority

In discharging its oversight role, the Committee is empowered to:

- Recommend to the Commissioners the selection of the Commission’s external auditor, considering qualifications, independence and schedule of fees and compensation.
- Conduct or authorize examinations and evaluations and refer to the Inspector General any matter calling for an investigation into any matters within its scope of responsibility.
- Retain independent counsel, accountants, or others to advise the Committee or assist it in the performance of its duties.
- Request the attendance of any officer or employee of the Commission at any meeting of the Committee or with any members of, or advisors to, the Committee.
- Form and delegate authority to subcommittees consisting of one or more members to perform such duties and responsibilities under this Charter as the Committee may deem appropriate.

III. Composition

The Audit Committee shall be comprised of three or more Commissioners, each of whom shall be independent. A member of the Committee shall not be deemed independent if the member, directly or indirectly, has a material relationship with the Commission that, in the opinion of the Commissioners, would interfere with the exercise of independent judgment as a member of the Committee. All members of the Committee shall have a working familiarity with basic finance

and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise.

IV. Structure and Processes

Appointment of Members, Chairperson. The Committee members shall be appointed by the Commission and the chairperson of the Committee shall be elected by the Committee members.

Meetings. The Committee shall meet at least twice annually, or more frequently as circumstances dictate. The Committee shall periodically hold executive sessions with management; the internal auditor or the external auditor to discuss any matters that the Committee, management or the auditors believe should be discussed privately. Meeting agenda items will be proposed by staff, and submitted by the Chief Operating Officer to members of the Committee in advance of each meeting, along with appropriate briefing materials. Minutes will be kept by a member of the Committee or a person designated by the Committee to do so.

Rules and Guidelines. The Committee may adopt rules and guidelines for its meetings and other activities.

V. Responsibilities

The committee will carry out the following responsibilities:

- Review and discuss with management and the external auditor the annual financial statements. Discuss significant accounting and reporting issues including complex or unusual transactions.
- Recommend the selection of the external auditor and approval of the fees and other compensation to be paid to the external auditor. Pre-approve all audit and non-audit services to be performed by the external auditor.
- Review the performance of the external auditor and recommend the replacement or discharge of the external auditor, if necessary.
- Meet with the external auditor to discuss the proposed audit planning, scope, staffing and approach, including coordination of its effort with the internal auditor.
- Obtain and review a report from the external auditor regarding its quality control procedures, and material issues raised by the most recent internal quality control review, or peer review, of the firm or by any inquiry or investigation by governmental or professional authorities within the preceding five years and any steps taken to deal with any such issues.
- Obtain and review a formal written statement from the external auditor delineating all relationships between the external auditor and the Commission that may impact the objectivity and independence of the external auditor. Discuss with the external auditor any disclosed relationships and take appropriate action to satisfy itself as to the independence of the external auditor.

- Review with management and the external auditor the results of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of the activities or access to requested information and any significant disagreements with management.
- Discuss with the internal auditor and external auditor the scope of their reviews of internal control over financial reporting, including controls over information technology and security control, and obtain reports on significant findings and recommendations, together with management's responses.
- Review with management, the internal auditor and the external auditor the Commission's accounting, auditing and financial reporting processes, including the plans, activities, staffing and organizational structure of the Toll Revenue Audit and Operations Review Departments.
- Obtain regular updates from management and Commission counsel regarding compliance matters and legal matters that may have a significant impact on the financial statements.
- Establish and review procedures for the receipt, retention and treatment of complaints received by the Commission regarding accounting or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- Review with management the Commission's major risk exposures and the steps management has taken to monitor and control such exposures.
- Establish, review and update periodically a Code of Ethical Conduct and ensure that management has established a system to distribute and to enforce this Code.
- Report regularly to the Commissioners regarding issues arising before, and actions taken by, the Committee.
- Review and update this Charter periodically as conditions dictate.
- Perform any other activities consistent with this Charter as the Committee or the Commissioners deem necessary or appropriate.